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- For two-letter codes and other abbreviations, refer to the "Guidance Notes on Codes and Abbreviations" appearing at the beginning of each regular issue of the PCT Gazette.
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**WO 00/75828 A1**

(54) Title: BUSINESS METHOD FOR CREATING AND TRADING A SECURITY FOR ASSETS WHICH CURRENTLY LACK LIQUIDITY

(57) Abstract: A method for trading assets on an exchange and a method for creating securities in said assets. The assets selected from the group consisting of art work, intellectual property rights, real estate property rights, oil rights, mineral rights, and water rights. The method includes, in part, the following steps: establishing a medium for selling the assets such as the internet; assessing the value of the assets; dividing the assets into shares; selling the shares through the medium; determining the shareholder controlling the rights in the asset; the controlling shareholder distributing dividends to the other shareholders in proportion to the amount of shares held by the shareholder; periodically ascertaining which shareholder has a majority of the shares; allowing the majority shareholder to demand transfer of control and/or possession of the asset.

BUSINESS METHOD FOR CREATING AND TRADING A SECURITY FOR  
ASSETS WHICH CURRENTLY LACK LIQUIDITY

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BACKGROUND OF THE INVENTION

1. Field of the Invention

This invention relates generally to business methods, and more specifically to  
10 business methods for creating and trading a security in assets and rights which  
currently lack liquidity.

2. Description of Related Art

A brief review of the current art of trading may be of value in assisting one in  
15 understanding the value of the invention claimed herein. Current methods of trading  
assets and securities include:

(a) Current auction format - The current auction format consists of a group of  
buyers who place bids for an entire piece of property. This mechanism excludes  
20 many people from participating for several reasons. The main reason, however, is  
that the whole property must be purchased outright. This format generally prevents  
the majority of people from participating because of the cost limitations of purchasing  
the entire property all at once.

(b) Current Securities - In order to compensate for the high cost of entering the  
25 market for a large piece of property, such as a company, several different type of

securities have been created. The various forms of securities are a result of the company wanting to obtain capital, and include, stocks, bonds, and warrants. These each give rights to the investors of the stocks, bonds, and warrants.

In the case of stock, an investor is given the right to vote for those who will make up the board of directors. In the case of bonds, investors are given the right to the payment of interest in the form of a dividend, as well as the proceeds of the sale of the company's assets in the case of insolvency. There are also convertible bonds, which begin as a bond but can be converted into stock in certain conditions. Warrants give the investor the ability to purchase stocks at a price that is potentially at a discount to the current market value.

There is another type of security which applies to consumable products. This is called a commodity contract. Commodity contracts allow an individual to lock in a price at which he would like to purchase or sell such items as wheat, pork bellies, soy beans, oil, and other consumable items.

All of the above mentioned securities trade in an auction format on an exchange where buyers, sellers, and market makers have the ability to transact at their leisure. The market for companies is very liquid because they are traded in units that are affordable to investors of all types.

These current securities formats, however, do not apply to many types of property, making these properties illiquid. Illiquidity comes from cutting off capital sources, the types of properties which are currently illiquid are works of art, oil rights, water rights, mineral rights, and intellectual property rights.

The aforementioned types of securities are ill suited for auctioning smaller

pieces of property such as works of art, oil rights, water rights, mineral rights, and intellectual property rights. Stock is not appropriate because there is no guarantee for the investor that they will be able to participate in any of the profit from the development of the property. Bonds are inappropriate because they are vehicles that are used to create debt, and give no rights to profits either. Options are not appropriate because they expire eventually. None of these securities offer the investor any monetary incentive to invest their money.

(c) Limited partnership - The limited partnership is another method for generating capital in exchange for an interest in the profitability of an asset. The limited partnerships allow individuals to benefit from the partial interest in the profitability of an asset. Investors, called limited partners, purchase units of ownership in exchange for dividend payments or income derived from the development of the asset. Limited partnerships, however, give the investor no control over or ownership in the asset, and the investor is often left owning a valueless interest in the profits of an asset that did not generate a profit.

(d) Conclusion - From the preceding descriptions, it is apparent that the business methods currently being used have significant disadvantages. Thus important aspects of the methods used in the field of the invention remain amenable to useful refinement.

## SUMMARY OF THE INVENTION

The present invention introduces such refinement. This invention allows an owner of an asset such as art work, intellectual property rights, real estate property

rights, oil rights, mineral rights, and water rights an opportunity to obtain capital in exchange for an equity interest in the asset as well as a dividend payment. Therefore, currently illiquid assets can now be made liquid through use of the present invention. This method creates a means for gaining capital in exchange for equity interest in any  
5 valuable asset. Further, this method benefits both the sellers and the purchasers.

This method benefits the seller because it allows for a large group of buyers to participate, and as a result, creates greater demand. The seller is also benefitted because the method allows the seller to decide what interest the seller wishes to sell of the asset.

10 This method benefits the purchasers as dividends in the form of cash or more shares in the asset. Purchasers also have the opportunity to diversify their financial portfolio. Further, the purchaser can eventually control, be in possession of, or become the owner of the asset without having to purchase the asset all at once.

The limited partnership was established in an attempt to compensate for the  
15 lack of liquidity in certain assets, however, there are can be severe consequences to investing in a limited partnership. The main risk in investing in a limited partnership is that the general partner can abscond with all the investment money and still retain ownership of the asset. Thus leaving the limited partners with nothing. The present method is superior because it protects the investor's investment in two ways. First,  
20 the investors are protected by the fact that the investors have actual equity interest in the asset itself. Second, the investors are protected by the fact that dividends are being distributed on the investment, either in cash, profits, or additional shares of the asset. As such the original owner can lose control of the asset to the investors.

Hence, certain risks associated with limited partnerships are addressed by this invention to make the method more attractive than limited partnerships.

All of the foregoing principles and advantages of the present invention will be more fully appreciated upon consideration of the following detailed description, with  
5 reference to the appended drawings.

### DESCRIPTION OF THE PREFERRED EMBODIMENTS

While the invention will be described in connection with preferred  
embodiments, it will be understood that it is not intended to limit the invention to  
10 those embodiments. On the contrary, it is intended to cover all alternatives,  
modifications, and equivalents as may be included within the spirit and scope of the  
invention as defined by the appended claims.

The first preferred embodiment of this invention is a method for trading rights.  
The rights can be intellectual property rights, real estate property rights, oil rights,  
15 mineral rights, water rights, and any other currently illiquid rights. Intellectual  
property rights encompass patents, trademarks, copyrights, and trade secrets.  
Further, the use of the term copyrights is intended to encompass all works which are  
or will be protected under the copyright laws.

The first step of the method includes establishing a medium for selling the  
20 rights. The medium can be an Internet based company. This company will bring  
together the owners of the rights and prospective purchasers of the rights.

The second step of the method includes assessing the value of the rights that  
are to be sold. Assessment of the rights can be accomplished through several avenues,

and can be dependent upon what rights are being assessed. For all the rights a very important indication of value of the rights would be reports of the prior success, capabilities, or production already received through the exploitation of the rights, as well as an accounting of prior income generated and any increase in value of the particular property as a whole. Another indication of the value of the rights is through taking surveys of interest in the specific market of the particular rights. If the rights are real estate, oil, mineral or water rights, than a geological survey would be helpful in assessing the value of the rights being sold.

The third and fourth steps of the method include dividing the rights into shares and then deciding the percentage of the shares to be sold. The percentage of shares to be sold can range from a percentage greater than zero and equal to one-hundred percent. The fifth step includes selling the shares by direct auction through the Internet and as a result, the purchasers of the shares become shareholders. The direct auction format includes a minimum initial offering and after that the shares are open to bidding. Once shares are purchased the next steps of the method include discovering the amount of shares held by each shareholder, and then distributing dividends to the shareholders by the controlling shareholder. The dividend amount is proportional to the amount of shares held by the shareholder.

There are several methods for distributing the dividends to the shareholders. First, the controlling shareholder can pay cash in an amount proportional to the amount of shares held by the shareholder. Second, the controlling shareholder can pay with shares representing his own equity interest, thereby diminishing his own equity in the rights and increasing the equity interest in the rights of the shareholders. Lastly,

the controlling shareholder can pay dividends based on the amount of profits earned by exploitation of the rights. Further, the dividend can be paid in any combination of the three methods described above. The amount of the dividend will be determined by market forces. Less attractive assets will require that higher dividends be paid.

5      Conversely, shares in more valuable assets may be attractive to investors even though the dividend is less or no dividend is paid at all.

Another step of the method includes ascertaining the shareholder with a majority of the shares in the rights. The last step of the method includes allowing the majority shareholder to demand transfer of control of the rights to the shareholder  
10      with the majority of shares or any other person or entity the majority shareholder desires to have control of the rights. Further, the majority shareholder is not necessarily a single person, the majority shareholder can include a coalition of many individual shareholders who aggregate their shares together in order to control a majority of the shares.

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The second preferred embodiment includes a method for creating a security in title to a piece of art work. The first step of the method includes assessing the value of the art work that is to be sold. Assessment of the art work is done similarly to the assessment done for the rights discussed above as well as an accounting of prior  
20      earnings as a result of touring would also be effective. The second and third steps of the method include dividing the art work into shares and then deciding the percentage of the shares to be sold. The percentage of shares to be sold can range from a percentage greater than zero and equal to one-hundred percent.



## 8.

The fourth step includes selling the shares by direct auction through the Internet, and as a result the purchasers of the shares become shareholders. The direct auction format includes a minimum initial offering and after that the shares are open to bidding. Once shares are purchased the next steps of the method include discovering  
5 the amount of shares held by each shareholder and distributing dividends to the shareholders by the shareholder controlling and possessing the art work. The dividend amount is proportional to the amount of shares held by the shareholder.

There are several methods for distributing the dividends to the shareholders. First, the controlling shareholder can pay cash in an amount proportional to the  
10 amount of shares held by the shareholder. Second, the controlling shareholder can pay with additional shares in the rights in an amount proportional to the amount of shares held by the shareholder. Lastly, the controlling shareholder can pay dividends based on the amount of profits earned by exploitation of the art work in an amount proportional to the amount of shares held by the shareholder.

15 Another step of the method includes ascertaining the shareholder with a majority of the shares in the art work. The last step of the method includes allowing the majority shareholder to demand transfer of possession and control of the art work to the shareholder with the majority of shares or any other person or entity the majority shareholder desires to have control of the art work. Further, the majority  
20 shareholder is not necessarily a single person, the majority shareholder can include a coalition of many individual shareholders who aggregate their shares together in order to control a majority of the shares.

In a third preferred embodiment the invention includes a method for creating a

security in oil, mineral, and water rights. The first step of the method includes assessing the value of the rights to be sold. Assessment of the rights is done similarly to the assessment done for the rights discussed above. The second and third steps of the method include dividing the rights into shares and then deciding the percentage of the shares to be sold. The percentage of shares to be sold can range from a percentage greater than zero and equal to one-hundred percent. The fourth step includes selling the shares by direct auction through the Internet, and as a result the purchasers of the shares become shareholders. The direct auction format includes a minimum initial offering and after that the shares are open to bidding. Once shares are purchased the next step of the method includes distributing dividends to the shareholders by the controlling shareholder. The dividend amount is proportional to the amount of shares held by the shareholder.

There are several methods for distributing the dividends to the shareholders. First, the controlling shareholder can pay cash in an amount proportional to the amount of shares held by the shareholder. Second, the controlling shareholder can pay with additional shares in the rights in proportion to the amount of shares held by the shareholder. Lastly, the controlling shareholder can pay dividends based on the amount of profits earned by exploitation of the rights in an amount proportional to the amount of shares held by the shareholder.

The another step of the method includes ascertaining the shareholder with a majority of the shares in the rights. The last step of the method includes allowing the majority shareholder to demand transfer of control of the intellectual property rights to the shareholder with the majority of shares or any other person or entity the

majority shareholder desires to have control of the rights. Further, the majority shareholder is not necessarily a single person, the majority shareholder can include a coalition of many individual shareholders who aggregate their shares together in order to control a majority of the shares.

5           In a fourth preferred embodiment the invention includes a method for creating a security in intellectual property rights. The first step of the method includes assessing the value of the intellectual property rights to be sold. Assessment of the intellectual property rights is done similarly to the assessment done for the rights discussed above. The second and third steps of the method include dividing the  
10       intellectual property rights into shares and then deciding the percentage of the shares to be sold. The percentage of shares to be sold can range from a percentage greater than zero and equal to one-hundred percent. The fourth step includes selling the shares by direct auction through the Internet, and as a result the purchasers of the shares become shareholders. The direct auction format includes a minimum initial  
15       offering and after that the shares are open to bidding. Once shares are purchased the next step of the method includes distributing dividends to the shareholders by the controlling shareholder. The dividend amount is proportional to the amount of shares held by the shareholder.

          There are several methods for distributing the dividends to the shareholders.

20       First, the controlling shareholder can pay cash in an amount proportional to the amount of shares held by the shareholder. Second, the controlling shareholder can pay with additional shares in the rights in an amount proportional to the amount of shares held by the shareholder. Lastly, the controlling shareholder can pay dividends based

on the amount of profits earned by exploitation of the rights in an amount proportional to the amount of shares held by the shareholder.

Another step of the method includes ascertaining the shareholder with a majority of the shares in the intellectual property rights. The last step of the method includes allowing the majority shareholder to demand transfer of control of the intellectual property rights to the shareholder with the majority of shares or any other person or entity the majority shareholder desires to have control of the intellectual property rights. Further, the majority shareholder is not necessarily a single person, the majority shareholder can include a coalition of many individual shareholders who aggregate their shares together in order to control a majority of the shares.

The following are two examples demonstrating the economic power of the invention. In Example 1, a museum has ownership of an etching, such as the Turbulent Solace by Nena Hsu. The museum not only owns the painting, but it also owns the copyright in the image of the painting. The museum may wish to generate capital, which it can readily do by selling Turbulent Solace, however, the museum will no longer be in possession of the etching, which is important to the museum's art collection. The invention allows the museum to sell equity in either the etching itself, or equity in the copyright, or both. One unique benefit to the museum, if it only wishes to sell equity in the copyright, is that the museum can retain possession of Turbulent Solace even if it sells all of the copyright in the image. Further, the museum can also sell less than fifty percent of the equity of the etching itself and still maintain possession and control of the etching. Therefore, the museum can readily obtain a cash flow as necessary without having to jeopardize possession of the painting.

The benefits to the purchaser of shares in Turbulent Solace would be many. First, there will be a return on investment because the museum will be distributing dividends to the shareholders based on the amount of shares each shareholder holds. The shareholders dividends may be derived from exhibition revenue or from any other source. The investors would also benefit by having the opportunity to diversify their portfolios beyond traditional investment vehicles. Museum quality art frequently appreciates over time. If the etching is later sold to another museum, then the investors will receive a profit on the sale of their shares. The invention is a benefit for small, individual investors because historically such investors have not been able to participate in the sale of such museum quality art. Investors may believe that Turbulent Solace will command such a high premium in the future that investors will buy shares even if no dividend is paid. The museum benefits because the invention makes the museum's illiquid art assets liquid without removing them from display in the museum.

The second example of the invention that illustrates its usefulness involves a company that has various intellectual properties of value. Currently, when companies want to generate capital they must go public and sell shares of the company. This is generally not possible for small companies because purchasers have low interest in investing in small, unproven companies. On the other hand, such a company may have an impressive patent portfolio that has value independent of the company's sales history. The company may wish to raise capital by selling shares in a portion of one or more of its patents. Applying the invention method would allow the small company the ability to raise capital through the selling of equity interests in the

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patent(s). This may be attractive to investors because the company could fail, but the patents may not lose their value because the value in the patent monopoly is not necessarily a function of the performance of the company. Further, this method would allow a company with several intellectual properties to sell equity interest in only one property or part of one property.

5

I Claim:

1. A method for trading rights, said rights selected from the group consisting of intellectual property rights, real estate property rights, oil rights, mineral rights, and  
5 water rights, said method comprising the steps of:
  - establishing a medium for selling the rights;
  - assessing the value of the rights;
  - dividing the rights into shares;
  - deciding the percentage of the shares to be sold;
  - 10 selling the shares by direct auction through the medium thereby creating shareholders, wherein the shareholders being either a majority shareholder or a minority shareholder;
  - discovering the amount of shares held by each shareholder;
  - determining the shareholder controlling the rights;
  - 15 the controlling shareholder distributing dividends to each shareholder proportional to the amount of shares held;
  - periodically ascertaining the shareholder with a majority of the shares in the rights; and
  - allowing the majority shareholder to demand transfer of control of the rights to  
20 the shareholder with the majority of shares.
2. The method of claim 1, further comprising transferring the control of the rights to the shareholder with the majority of shares.

3. The method of claim 1, wherein the medium is the Internet.

4. The method of claim 1, wherein the dividends are zero.

5 5. The method of claim 1, wherein the step of distributing dividends comprises supplying the shareholder with additional shares in the rights in an amount in proportion to the amount of shares held by the shareholder.

6. The method of claim 1, wherein the step of distributing dividends comprises  
10 distributing profits earned by exploitation of the rights in an amount in proportion to the amount of shares held by the shareholder.

7. The method of claim 1, wherein the majority shareholder is a coalition of many shareholders.

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8. A method for creating a security in the title of ownership of chattel by having shares that represent an equity interest in the chattel, shareholders who own the shares of the chattel, and a controller of the chattel, the chattel being art work and the physical piece of art work being separate from the copyright in the art work, said  
20 method comprising the steps of:

establishing a medium for selling the rights;

assessing the value of the art work;

dividing the art work into shares;



deciding percentage of the art work in shares to be sold;  
selling the shares by direct auction thereby creating shareholders, wherein the  
shareholders being either a majority shareholder or a minority shareholder;  
discovering the amount of shares held by each shareholder;  
5 determining the shareholder controlling the rights;  
distributing dividends to each shareholder proportional to the amount of shares  
held by the shareholder, wherein the dividends are distributed by the controlling  
shareholder;  
ascertaining the shareholder holding a majority of the shares in the art work;  
10 and  
allowing the majority shareholder to demand transfer of possession and control  
of the art work to the shareholder with the majority of shares.

9. The method of claim 8, wherein the step of distributing dividends comprises  
15 distributing cash to the shareholder in an amount proportional to the amount of shares  
held by the shareholder.

10. The method of claim 8, wherein the step of distributing dividends comprises  
supplying the shareholder with additional shares of the art work in an amount in  
20 proportion to the amount of shares held by the shareholder.

11. The method of claim 8, wherein the step of distributing dividends comprises distributing profits earned by exploitation of the art work in an amount in proportion to the amount of shares held by the shareholder.

5 12. The method of claim 8, wherein the majority shareholder is a coalition of many shareholders.

13. A method for creating a security in oil, mineral, and water rights by having shares that represent an equity interest in the rights, shareholders who own the shares  
10 of the rights, and a owner of the rights, said method comprising the steps of:

establishing a medium for selling the rights;

assessing the value of the rights;

dividing the rights into shares;

deciding percentage of the rights in shares to be sold;

15 selling the shares by direct auction thereby creating shareholders, wherein the shareholders being either a majority shareholder or a minority shareholder;

discovering the amount of shares held by each shareholder;

determining the shareholder controlling the rights;

20 distributing dividends to each shareholder proportional to the amount of shares held by the shareholder, wherein the dividends being distributed by the shareholder controlling the rights;

ascertaining the shareholder holding a majority of the shares in the rights; and

allowing the majority shareholder to demand transfer of control of the rights

selected from the group consisting of oil, mineral, and water rights to the shareholder with the majority of shares.

14. The method of claim 13, wherein the step of distributing dividends comprises  
5 distributing cash to the shareholder in an amount proportional to the amount of shares held by the shareholder.

15. The method of claim 13, wherein the step of distributing dividends comprises  
supplying the shareholder with additional shares of the rights in an amount in  
10 proportion to the amount of shares held by the shareholder.

16. The method of claim 13, wherein the step of distributing dividends comprises  
distributing profits earned by exploitation of the rights in an amount in proportion to  
the amount of shares held by the shareholder.

15

17. The method of claim 13, wherein the majority shareholder is a coalition of  
many shareholders.

18. A method for creating a security in intellectual property rights by having  
20 shares that represent an equity interest in the rights, shareholders who own the shares of the rights, and a owner of the rights, said method comprising the steps of:

establishing a medium for selling the rights;

assessing the value of the rights;

- dividing the rights into shares;
- deciding percentage of the rights in shares to be sold;
- selling the shares by direct auction thereby creating shareholders, wherein the shareholders being either a majority shareholder or a minority shareholder;
- 5            discovering the amount of shares held by each shareholder;
- determining the shareholder controlling the rights;
- distributing dividends to each shareholders proportional to the amount of shares held by each shareholder, wherein the dividends being distributed by the shareholder controlling the rights;
- 10            ascertaining the shareholder holding a majority of the shares in the rights; and
- allowing the majority shareholder to demand transfer of control of the intellectual property rights to the shareholder with the majority of shares.
19.        The method of claim 18, wherein the step of distributing dividends comprises
- 15        distributing cash to the shareholder in an amount proportional to the amount of shares held by the shareholder.
20.        The method of claim 18, wherein the step of distributing dividends comprises
- supplying the shareholder with additional shares of the rights in an amount in
- 20        proportion to the amount of shares held by the shareholder.
21.        The method of claim 8, wherein the medium is the Internet.

22. The method of claim 13, wherein the medium is the Internet.
23. The method of claim 8, wherein the medium is the Internet.

## INTERNATIONAL SEARCH REPORT

International application No.

PCT/US00/14508

## A. CLASSIFICATION OF SUBJECT MATTER

IPC(7) : G06F 17/60

US CL : 705/37

According to International Patent Classification (IPC) or to both national classification and IPC

## B. FIELDS SEARCHED

Minimum documentation searched (classification system followed by classification symbols)

U.S. : 705/37, 35, 36

Documentation searched other than minimum documentation to the extent that such documents are included in the fields searched

Electronic data base consulted during the international search (name of data base and, where practicable, search terms used)

Please See Extra Sheet.

## C. DOCUMENTS CONSIDERED TO BE RELEVANT

| Category*      | Citation of document, with indication, where appropriate, of the relevant passages                   | Relevant to claim No. |
|----------------|--|-----------------------|
| Y <sup>+</sup> | US 5,950,176 A (KEISER et al) 07 September 1999, see the abstract, col. 2 line 18 to col. 3 line 64. | 1-23                  |
| Y              | US 5,758,097 A (DEBE et al.) 26 May 1998, see the abstract, fig. 2.                                  | 1-23                  |
| Y,P            | US 6,038,554 A (VIG) 14 March 2000, see the abstract.  | 1-23                  |
| A,P            | US 6,061,662 A (MAKIVIC) 09 May 2000, see the abstract.  | 1-23                  |
| A,P            | US 5,960,407 A (VIVONA) 28 September 1999, see the abstract, fig. 1.                                 | 1-23                  |



Further documents are listed in the continuation of Box C.



See patent family annex.

|   |  |
|---|--|
| * Special categories of cited documents:  | "T" later document published after the international filing date or priority date and not in conflict with the application but cited to understand the principle or theory underlying the invention  |
| "A" document defining the general state of the art which is not considered to be of particular relevance  | "X" document of particular relevance; the claimed invention cannot be considered novel or cannot be considered to involve an inventive step when the document is taken alone   |
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| "P" document published prior to the international filing date but later than the priority date claimed  |  |

Date of the actual completion of the international search

24 SEPTEMBER 2000

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## INTERNATIONAL SEARCH REPORT

International application No.  
PCT/US00/14508

## C (Continuation). DOCUMENTS CONSIDERED TO BE RELEVANT

| Category* | Citation of document, with indication, where appropriate, of the relevant passages   | Relevant to claim No. |
|-----------|--|-----------------------|
| A         | KLINE D. Wall Street Meets "Entertainment Tonight", Upside, March 1998, v10, n3, pg. 61, see the entire article.   | 1-23                  |
| A         | WIEBE W.R. "Indonesia", International Financial Law Review Banking Yearbook 1997 Supplement, July 1997, pg. 33-37, see section heading "Moveable Assets: Pledges & Fiduciary Interests". | 1-23                  |

# INTERNATIONAL SEARCH REPORT

International application No.  
PCT/US00/14508

## B. FIELDS SEARCHED

Electronic data bases consulted (Name of data base and where practicable terms used):

### DIALOG

search terms: sell, buy, purchase, bid, trade, auction, share, shareholder, patent, movie, film, real estate, artwork, oil, water, mineral right, copyright, dividend